

Message Text

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44

ACTION NEA-16

INFO OCT-01 ISO-00 OMB-01 TRSE-00 AID-20 IGA-02 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-07 PA-04

RSC-01 PRS-01 SP-03 SS-20 USIA-15 SAM-01 EB-11 DRC-01

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 2906

C O N F I D E N T I A L TEL AVIV 3527

E.O.11652: GDS

TAGS: EAID, EFIN, IS

SUBJECT: U.S. ASSISTANCE TO ISRAEL - FY 75

REF: STATE 130344

1. SUMMARY. DATA FOR FIRST FEW MONTHS OF 1974 SHOW BOTH ISRAEL BOND SALES AND INSTITUTIONAL TRANSFERS (WHICH INCLUDE UJA DONATIONS) RUNNING ONE-THIRD ABOVE SAME PERIOD IN EARLY 1973. HOWEVER, IT IS TOO EARLY TO TELL WHETHER THIS IS A PATTERN WHICH CAN BE EXPECTED TO CONTINUE. MOREOVER, CAPITAL INFLOW DURING LAST QUARTER OF 1973 MAY NOT BE REPEATED. FOREIGN EXCHANGE RESERVES (INDEFINITE EMBASSY USES, WHICH IS ESSENTIALLY THAT OF IMF) TOTALLED \$1,538 MILLION AT THE END OF MAY. THIS DID NOT INCLUDE ADDITIONAL \$100 MILLION ISRAEL HAS SET ASIDE IN SEPARATE ACCOUNT. PICTURE OF CAPITAL IMPORTS PAINTED IN REFTEL IS TOO DARK END SUMMARY.

2. ISRAEL' FOREIGN EXCHANGE RESERVES STOOD AT \$1,538.3 MILLION AT THE END OF MAY, DOWN 270 MILLION FROM \$1,809.8 MILLION AT END OF 1973. THIS FIGURE AGREES CONCEPTUALLY WITH IMF DEFINITION, BUT DIFFERS FROM IT SLIGHTLY DUE TO TECHNICAL REASON: IMF VALUES OTHER FOREIGN CURRENCIES IN DOLLAR TERMS AT ESTABLISHED CENTRAL RATES, WHEREAS ISRAELI PRACTICE IS FOR VALUATION AT MARKET RATES.

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HOWEVER, ISRAEL STATES ITS RESERVES AT LOWER LEVEL, SUBTRACTING

FORM ABOVE DATA (FOR END OF MAY): (A) DEPOSITS OF FOREIGN BANKING INSTITUTION INFOREING CURRENCY, \$4.0 MILLION; AND (B) DEPOSITS OF FOREIGN RESIDENTS , \$121.1 MILLION. THUS ISRAEL STATES ITS OFFICIAL RESERVES AS \$1,413.2 MILLION AT END OF MAY, DOWN FROM \$1,697.1 MILLION AT END OF 1973. FOR REASONS DETAILED IN TEL AVIV A-156 OF JUNE 26, 1974.

WE SEE MERIT IN STICKING CONCEPTUALLY WITH IMF DEFINITION EVEN THOUGH AS PRACTICAL MATTER, WE DO NOT CONVETT CURRENCIES INTO DOLLARS AT CNETRAL RATES.

3. BANK OF ISRAEL'S "ANNUAL REPORT: 1973" SHOWS THAT GOVERNMENT DEPOSITS ABROAD (IME. GOI WORKING BALANCES) ROSE FROM \$57.1 MILLION TO \$168.5 MILLION DURING COURSE OF 1973 SIMILAR PHENOMENON OCCURRED DURING 1967 WAR, WHEN RISE WS FROM \$34.4 MILLION TO \$133.6 MILLION (CF. BOI "AR: 1971" PP 76-77 " AR: 1972", P89.) THIS EVIDENCES FACT THAT RESERVES ACUTUALLY ROSE BY OVER \$100 MILLION MORE THAN OFFICIALLY ADMITTED DURING 1973.

4. ISRAEL BOND SALES DURING FIRST QUARTER OF 1974 TOTALED \$111.8 MILLION, AS COMPARED WITH \$76.2 MILLION RECEIVED DURING SAME PERIOD IN 1973. THIS FIGURE IS LOWER THAN WE HAD BEEN LED TO BELIEVE BY EARLIER REPORTS, INCLUDING IMPRESSIONISTIC REPORT FROM ONE OF SHER'S PREDECESSORS (ARYE MANOR, 1960-64) WHO WENT ON BOND SELLING MISSION TO UNITED STATES. IT IS LIKELY THAT MORE OPTIMISTIC ESTIMATES INCLUDING PLEDGES, WHEREAS ABOVE DATA REPRESENT RECEIPTS. IT IS UNCLEAR FROM REFTEL WHTA PERIOD OF TIME SHER'S DATA REFER TO; BOND SALES FIGURE IS ABOUT RIGHT FOR FIRST QUARTER.

5. INSTITUTUTIONAL TRANSFERS (INCLUDING UJA) DURING JANUARY-MARCH 1974 TOTALED \$118.9 MILLION AS COMPARED WITH \$88.1 MILLION DURING SAME PERIOD IN 1973. TRANFERS TO JEWISH AGENCY CONSTITUTE LARGEST PART OF INSTITUTIONAL TRANSFERS (ABOUT 70-75 PERCENT), AND GREATER PART OF THESE COME FROM UJA IN UNITED STATES. NONETHELESS JEWS IN OVER 60 OTHER COUNTRIS CHANNEL FUNDS TO JEWISH AGENCY. WE CANNOT COMMENT ON SHER'S DATA FOR UJA ALONE, OTHER THANTO SAY THEA THEY TELL ONLY PART OF STORY.

6. SHER IS RIGHT IN OBERSVING THAT DONATIONS OF ISRAEL BONDS TO (FOR EXAMPLE) JEWISH AGENCY OR OTHER ISRAELI INSTITUTIONS INVOLVES, NO INFLOW OF "NEW" MONEY IN CURRENT YEAR. WE WOULD CONFIDENTIAL

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ADD, HOWEVER, THAT IS (A) IMMEDIATELY REDUCES ISRAELIS FOREIGN DEBT, AND (B) FOR FUTURE YEARS REDUCES DEBT SERVICE PAYMENTS (PRINCIPAL AND INTEREST).

7. DATA ON BOND SALES AND INSTITUTIONAL TRANSFERS (WHICH INCLUDE UJA) CITED ABOVE SHOW BOTH RUNNING ONE-THIRD ABOVE SAME PERIOD IN 1973. WE WOULD CAUTION THAT THESE REFER ONLY TO THREE MONTHS, AND IT SI PREMATURE TO DRAW CONCLUSIONS AS TO FULL

YEAR. MOREOVER, COMPARISON MAY BE MADE ONLY WITH JANUARY-
SEPTEMBER 1973, SINCE LAST THREE MONTHS OF 1973 WERE EXTRAORDINARY.
ON OTHER HAND, GOI FORECASTS FOR UJA DONATIONS AND BOND
SALES HAVE TRADITIONALLY BEEN TOO LOW OVERALL, AS WE HAVE
OFTEN POINTED OUT. MOREOVE, RESULTS IN SECOND HALF OF YEAR
ARE ALWAYS BETTER THAN FIRST HALF, AS PLEDGES ARE CALLED IN
AND DRIVE REACHES CLIMAX. THUS WHILE GOI'S EXPECTATIONS MAY
HAVE BEEN MORE OPTIMISTIC, PICTURE PAINTED IN REFTEL APPEARS
TO US TO BE UNDULY GLOOMY.
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